

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Mount Clemens Public Library</u>	County: <u>Macomb</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>November 5, 2004</u>	Date Accountant Report Submitted To State: <u>December 17, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043</u>
Accountant Signature  			

# **Mount Clemens Public Library**

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## **Financial Report with Supplementary Information June 30, 2004**

# Mount Clemens Public Library

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## Independent Auditor's Report

To the Board of Trustees  
Mount Clemens Public Library

We have audited the accompanying financial statements of the Mount Clemens Public Library (the "Library"), including the Library's General Fund and the Library as a whole, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mount Clemens Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in financial position of the Mount Clemens Public Library, including the Library's General Fund and the Library as a whole, as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The library management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Clemens Public Library's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is not a required part of the basic financial statements. The required supplementary information is information required by the Governmental Accounting Standards Board. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A member of



A worldwide association of independent accounting firms

To the Board of Trustees  
Mount Clemens Public Library

As described in Note 9, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

November 5, 2004

# Mount Clemens Public Library

## Library Management's Discussion and Analysis

### Using this Annual Financial Report

This annual report consists of three parts:

- Library management's discussion and analysis (MD&A)
- Basic financial statements, audited by Plante & Moran, PLLC
- Required supplementary information

The MD&A is intended to serve as an overview analysis of the financial condition and operating results of the Library.

Please direct questions regarding this report to:

Donald E. Worrell, Jr., Library Director  
Mount Clemens Public Library  
150 Cass Avenue  
Mount Clemens, MI 48043

The basic financial statements on pages 6 and 7 include information that presents two different views of the Library using the modified-accrual and full-accrual methods.

The first column of the General Fund balance sheet/statement of net assets and the General Fund statement of revenue, expenditures, and changes in fund balance/statement of activities include information about the Library's General Fund under the modified-accrual method. The modified-accrual basis focuses on current financial resources and provides a more detailed view about the accountability of the Library's sources and uses of funds.

The adjustment column of the financial statements represents adjustments necessary to convert the modified-accrual financial statements to financial statements under the full-accrual method. The full-accrual basis focuses on long-term economic resources.

The statement of net assets full-accrual basis column provides both long-term and short-term information about the Library's overall financial status. This column and the statement of activities - full-accrual basis column present a longer-term view of the Library's finances. These columns tell how services were financed in the short term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

As this is the first year of the library management's discussion and analysis report, and, consistent with Governmental Accounting Standards Board Statement No. 34, this year's report does not show data comparative with prior years. In future years, the condensed financial information section on page 4 will include this information.

# Mount Clemens Public Library

## Library Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The table below shows key financial information under the full-accrual method in a condensed format. Note: Amounts and totals reported are for all Library activities to give a complete picture.

TABLE I	<u>June 30, 2004</u>
<b>Assets</b>	
Current assets	\$ 416,066
Capital assets	<u>2,179,825</u>
Total assets	2,595,891
<b>Liabilities</b>	
Other liabilities	58,137
Long-term liabilities	<u>168,579</u>
Total liabilities	<u>226,716</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	2,054,825
Unrestricted	<u>314,350</u>
Total net assets	<u><u>\$ 2,369,175</u></u>

TABLE 2	<u>Year Ended June 30, 2004</u>
<b>Revenue</b>	
Local sources	\$ 1,347,975
State sources	<u>64,038</u>
Total revenue	1,412,013
<b>Expenses</b>	<u>1,596,849</u>
<b>Changes in Net Assets</b>	<u><u>\$ (184,836)</u></u>

# **Mount Clemens Public Library**

## **Library Management's Discussion and Analysis (Continued)**

### **The Library as a Whole**

The Library's net assets decreased by \$184,836 this year. The Library's primary source of revenue (approximately 90 percent) is from property taxes, which funds the General Fund and is reported within local source revenue.

Salaries and fringe benefits, a contracted service, continues to be the largest expense for the Library, which equates to approximately 75 percent of the Library's total expenditures (excluding capital outlay) this fiscal year.

### **The Library's Funds**

The budgetary analysis of the General Fund is included on page 17, which shows the General Fund, the Library's only fund, including revenue and expenditures and excess of expenditures over revenue.

As noted above, the largest use of resources during the 2003-2004 fiscal year was for personnel - salaries and wages. This is typical of service organizations that are open to the public seven days a week, year round. Additionally, the Library underwent significant renovations this fiscal year, amounting to approximately \$600,000 in expenditures.

### **Library's Budgetary Highlights**

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address the renovation needs. There were no significant unfavorable variances for the year.

### **Capital Assets and Long-term Debt Activity**

At the end of the fiscal year, the Library had \$6,748,533 invested in land, building, improvements, furniture and equipment, books, and materials, including media based on the historical cost and estimated historical cost basis. During the year, a total of \$630,641 was spent on significant renovations as mentioned previously.

The Library's long-term debt activity consists of accumulated compensated employee absences (vacation leave) to be paid to eligible employees upon termination.

The Library issued limited tax general obligation facility bonds during the current year totaling \$125,000 for the renovations of the Library.



# Mount Clemens Public Library

## General Fund Balance Sheet/Statement of Net Assets June 30, 2004

	General Fund - Total Modified- accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Net Assets - Full-accrual Basis
<b>Assets</b>			
Cash and cash equivalents (Note 4)	\$ 390,576	\$ -	\$ 390,576
Accounts receivable	25,490	-	25,490
Capital assets (Note 5)	-	2,179,825	2,179,825
Total assets	<u><b>\$ 416,066</b></u>	2,179,825	2,595,891
<b>Liabilities</b>			
Accounts payable	\$ 42,345	-	42,345
Accrued and other liabilities	15,792	-	15,792
Long-term liabilities (Note 6):			
Due within one year	-	10,000	10,000
Due beyond one year	-	158,579	158,579
Total liabilities	58,137	168,579	226,716
<b>Fund Balances - Unreserved</b>			
Designated - Renovation	175,000	(175,000)	-
Undesignated	182,929	(182,929)	-
Total fund balances	357,929	(357,929)	-
Total liabilities and fund balances	<u><b>\$ 416,066</b></u>		
<b>Net Assets</b>			
Invested in capital assets - Net of related debt		2,054,825	2,054,825
Unrestricted		314,350	314,350
Total net assets		<u><b>\$ 2,369,175</b></u>	<u><b>\$ 2,369,175</b></u>

# Mount Clemens Public Library

## General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2004

	General Fund - Total Modified- accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full- accrual Basis
<b>Revenue</b>			
Local sources	\$ 1,347,975	\$ -	\$ 1,347,975
State sources	64,038	-	64,038
Total revenue	1,412,013	-	1,412,013
<b>Expenditures</b>			
Contracted services:			
Salaries and benefits	992,972	(1,493)	991,479
Other	166,889	-	166,889
Supplies	129,091	(48,051)	81,040
Capital outlay	630,641	(630,641)	-
Depreciation	-	349,304	349,304
Miscellaneous	8,137	-	8,137
Total expenditures	1,927,730	(330,881)	1,596,849
<b>Deficiency of Revenue Over Expenditures</b>	(515,717)	330,881	(184,836)
<b>Other Financing Sources</b> - Long-term debt issued	125,000	(125,000)	-
<b>Net Change in Fund Balance/Net Assets</b>	(390,717)	205,881	(184,836)
<b>Fund Balance/Net Assets</b> - Beginning of year	748,646	1,805,365	2,554,011
<b>Fund Balance/Net Assets</b> - End of year	<u>\$ 357,929</u>	<u>\$ 2,011,246</u>	<u>\$ 2,369,175</u>

# Mount Clemens Public Library

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## Notes to Financial Statements June 30, 2004

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Mount Clemens Public Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full-accrual accounting for the Library as a whole

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

#### **Reporting Entity**

The Library is governed by a seven-member Board of Trustees. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in the Library's financial report.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library's basic financial statements include both the Library as a whole and its General Fund financial statements.

#### **Library as a Whole Financial Statements**

The Library as a whole financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt, restricted net assets, if any, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the library-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

#### **Fund Financial Statements**

The Library's General Fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

# Mount Clemens Public Library

## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

The Library reports the following governmental fund:

**General Fund** - The General Fund is the Library's only fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value as of June 30, 2004, based on quoted market prices.

**Receivables and Payables** - All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Library considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

**Property Taxes** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2003 taxable valuation of the Library totaled approximately \$485 million, on which ad valorem taxes levied consisted of 2.644 mills for the Library's operating purposes. The ad valorem taxes levied raised approximately \$1.28 million and are recognized in the General Fund financial statements within the local sources revenue.

**Capital Assets** - Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, furniture and equipment, library books, periodicals, and videos are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	7-50 years
Furniture and equipment	5-20 years
Library books and audiovisual materials	5-10 years

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation Leave)** - Under an agreement with Mount Clemens Community Schools, workers are permitted to accumulate earned but unused vacation pay benefits subject to certain limitations. All vacation pay is accrued when incurred in the library-wide financial statements. A liability for these amounts is reported in governmental funds only for eligible worker terminations as of year end.

**Fund Equity** - Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Reconciliation of the Library as a Whole and the General Fund Financial Statements**

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the Library as a whole reported in the statement of net assets and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the current focus of the statement of the General Fund's balance sheet and the statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

# Mount Clemens Public Library

## Notes to Financial Statements June 30, 2004

### Note 2 - Reconciliation of the Library as a Whole and the General Fund Financial Statements (Continued)

<b>General Fund Fund Balance - Modified-accrual Basis</b>	<b>\$ 357,929</b>
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Amounts reported in the statement of net assets  
are different because:

Capital assets are not financial resources and are not reported in the funds	2,179,825
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Long-term liabilities are not due and payable  
in the current period and are not reported  
in the funds:

Bonds payable	(125,000)
Compensated absences	<u>(43,579)</u>

<b>Total Net Assets - Full-accrual Basis</b>	<b><u>\$ 2,369,175</u></b>
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<b>Net Change in Fund Balance - Modified-accrual Basis</b>	<b>\$ (390,717)</b>
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Amounts reported in the statement of activities are different  
because:

Governmental funds report capital outlays as  
expenditures in the statement of activities; these  
costs are allocated over their estimated useful lives  
as depreciation:

Library books and audiovisual materials	48,051
Capital outlay	630,641
Depreciation	<u>(349,304)</u>

Bond issuances are reported as an other financing source in the fund statements, but not in the statement of activities (where it increases long-term debt)	(125,000)
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Decrease in the accrual for long-term compensated absences reported as an expenditure in the fund financial statements but not in the statement of activities	<u>1,493</u>
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<b>Change in Net Assets - Full-accrual Basis</b>	<b><u>\$ (184,836)</u></b>
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# Mount Clemens Public Library

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## Notes to Financial Statements June 30, 2004

### **Note 3 - Budget Information**

The annual budget is prepared by the Library director and adopted by the Library Board and subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on a function/object level; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget can be found in the required supplementary information.

### **Note 4 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 authorizes local government units to make deposits and invest in accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board in accordance with Public Act of 1997 has authorized investment in all items of the state statutory authority as listed above.

The Mount Clemens Public Library's deposits and investment policies are in accordance with statutory authority.

The Library's deposits and investments are included on the balance sheet under cash and cash equivalents in the amount of \$390,576. All of this amount is classified by Governmental Accounting Standards Board Statement No. 3 as deposits with financial institutions.



# Mount Clemens Public Library

## Notes to Financial Statements June 30, 2004

### Note 4 - Deposits and Investments (Continued)

**Deposits with Financial Institutions** - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$568,035. Of that amount, \$300,201 was covered by federal depository insurance and \$267,834 was uninsured and uncollateralized.

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 5 - Capital Assets

Capital asset activity of the Library was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets:				
Land improvements	\$ 128,999	\$ -	\$ -	\$ 128,999
Buildings and improvements	899,375	630,641	-	1,530,016
Library books and audiovisual material	3,400,000	48,051	-	3,448,051
Furniture and equipment	1,641,467	-	-	1,641,467
Subtotal	6,069,841	678,692	-	6,748,533
Less accumulated depreciation	4,219,404	349,304	-	4,568,708
Net capital assets	<u>\$ 1,850,437</u>	<u>\$ 329,388</u>	<u>\$ -</u>	<u>\$ 2,179,825</u>

Capital assets, including library books and audiovisual materials, are recorded at cost. Depreciation expense was \$349,304 for the year ended June 30, 2004.

# Mount Clemens Public Library

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt

#### Outstanding Debt

A summary of the debt outstanding of the Library at June 30, 2004 is as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation bonds -							
2004 Library Facility Bonds							
Amount of issue - \$125,000	2.30%-	\$10,000-	\$ -	\$ 125,000	\$ -	\$ 125,000	\$ 10,000
Maturing through 2016	4.95%	\$15,000					
Other long-term liabilities -							
Compensated absences (vacation)	-	-	45,072	-	1,493	43,579	-
Total long-term debt and other long-term liabilities			\$ 45,072	\$ 125,000	\$ 1,493	\$ 168,579	\$ 10,000

The compensated absences represent the estimated liability to be paid by the Library under an agreement with Mount Clemens Community Schools. Under the agreement, workers earn vacation time based on length of service.

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding employee benefits), including principal and interest, are as follows:

Years Ending June 30	Amount
2005	\$ 10,000
2006	10,000
2007	10,000
2008	10,000
2009	10,000
2010-2014	50,000
2015-2016	25,000
Total	<u>\$ 125,000</u>

# Mount Clemens Public Library

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## Notes to Financial Statements June 30, 2004

### **Note 7 - Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for health, disability, life, workers' compensation, and general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past fiscal years.

### **Note 8 - Operating and Maintenance Agreement**

The Library has entered into a contract with Mount Clemens Community Schools (the "School District") under which the School District will supply the Library with personnel, including benefits (other than accumulated vacation pay (see Note 6)), and will act as the fiscal agent with respect to the operation and maintenance of the Library. The Library paid \$50,000 to the School District for operation and maintenance services during the year ended June 30, 2004. The amount of future fees the Library will be required to pay to the School District will be determined at appropriate junctures.

### **Note 9 - Accounting and Reporting Change**

#### **GASB No. 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Library has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for the Library as a Whole
- Capital assets in the statement of net assets include \$2,669,841 that would previously have been reported in the General Fixed Assets Account Group.

## **Required Supplementary Information**

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# Mount Clemens Public Library

## Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Revenue</b>				
Local sources	\$ 1,356,486	\$ 1,356,486	\$ 1,347,975	\$ (8,511)
State sources	60,000	60,000	64,038	4,038
Total revenue	1,416,486	1,416,486	1,412,013	(4,473)
<b>Expenditures</b>				
Salaries and benefits	1,043,486	1,043,486	992,972	50,514
Purchased services	158,000	158,000	166,889	(8,889)
Supplies, materials, etc.	201,000	201,000	129,091	71,909
Capital outlay	5,000	705,000	630,641	74,359
Miscellaneous expense	4,000	4,000	8,137	(4,137)
Total expenditures	1,411,486	2,111,486	1,927,730	183,756
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>\$ 5,000</b>	<b>\$ (695,000)</b>	<b>\$ (515,717)</b>	<b>\$ 179,283</b>

November 5, 2004

Board of Trustees  
Mount Clemens Public Library  
150 Cass Avenue  
Mount Clemens, MI 48043

Dear Trustees:

We recently completed our examination of the basic financial statements of Mount Clemens Public Library (the "Library") for the year ended June 30, 2004. As a result of our audit, we have issued an unqualified opinion, which is commonly referred to as a 'clean' opinion, on your basic financial statements. In connection with the audit, we offer the following comments and recommendations for your consideration as the policy making body of the Library.

### **Budgeting and Fund Equity**

The Board of Trustees and the Director of the Library play a key role in establishing and monitoring budgeted revenue and expenditures for the Library. During the year ended June 30, 2004, the Library's General Fund fund equity decreased by \$390,717 to a balance of \$357,929 as of June 30, 2004, which is more favorable than was projected in the latest budget. The decrease in fund equity was due to the planned renovation costs during the 2004 fiscal year. The benefits of the maintaining an appropriate amount of fund equity include the ability to maintain the Library's current level of service, while being able to meet unforeseen circumstances or save for future capital needs without having to borrow a significant amount of monies.

### **New Reporting Format – GASB #34**

During the current year, the Library, along with many other governmental units in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the Library's overall financial position and results of operations.
- *Statement of Net Assets and Statement of Activities:* These additional statements, which are combined with the old statements, adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Library from a longer term perspective. These statements show capital assets, as well as long term liabilities such as any loans or vested vacation pay as part of the Library's financial picture.

- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the Library as compared to the amended budget, but also as compared to the original budget for the General Fund.

While getting used to the new format may take a while, the Management's Discussion and Analysis section of the new reporting format, as mentioned above, provides an overview of the Library's finances, as well as major projects worked on throughout the year, such as the Library's recent renovation.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. Accumulating the information necessary for the new financial statement format has meant additional work for the Library's staff. With additional statements, reconciliation from fund-based to government-wide reporting, and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the Library staff and the auditors. The Library's Director has done an excellent job of assisting and cooperating with the audit work being done to accumulate the necessary information.

### **Internal Control and Fraud Prevention**

Designing and maintaining a sound system of internal controls over the Library's assets, as well as fraud prevention and detection, are on the forefront in today's financial environment. As part of our audit of the Library's 2004 financial report, we performed additional procedures as required by Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with a Board member, management and others; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

### **Other Matters**

We understand that accounting and internal control matters are often an issue of the allocation of limited resources. As part of the Library's process of continuous improvement, we noted the following that we bring to your attention for consideration:

Capital Asset Policy - With the implementation of GASB #34, many decisions were required related to accounting for the Library's capital assets, including capitalization threshold, useful lives, depreciation method, etc. We worked closely with the Library's Director to document the decisions. We recommend the Library continue to review the decisions made and formalize them by adopting a capital asset policy. A sample policy based on the decisions made has been provided to the Library.

Budget format - The budget resolution includes the Library's revenue and expenditures, but does not reflect a 'fund balance' amount. We recommend that beginning and ending fund balance lines be added to all adopted budgets (i.e. original and any amended budgets).

We thank the Board for the opportunity to serve as auditors for the Library and hope we have met your expectations. We also express our appreciation to Mr. Worrell and all the staff for the courtesy and cooperation extended to us during the course of the engagement. As always, we would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink, reading "Christina M. Kostiuk". The signature is written in a cursive style with a large initial "C".

Christina M. Kostiuk

cc: Donald E. Worrell, Jr.